Top Canadian REITS of 2023

Description

Real estate investing is a profitable enterprise that can make property owners filthy rich. At the same time, it's also time-consuming, stressful, and capital intensive. This is especially true in the initial stages of property development, and it can often become a full-time occupation.

But for those looking for a passive investment, there is a much easier way to invest in real estate. It requires less capital, less time, and often pays out a hefty dividend, too. It's called a real estate investment trust (REIT), and below we'll help you understand what it is and how to invest in one.

What is a real estate investment trust (REIT)?

A real estate investment trust or REIT (pronounced 'REET') is a company that pools together investor money to buy and manage real estate.

REITs are structured like mutual funds, except instead of holding a portfolio of different stocks, a REIT portfolio holds various income-producing properties.

The biggest REITs manage a great number of properties in several parts of the country, as well as in different real estate sectors, such as residential and commercial. This can help minimize losses if real estate depreciates in certain locales.

What are the different types of REITs?

REITs can be classified by the three ways they can be bought or held:

- **Publicly-traded REITs**: Publicly traded REITs trade like stocks on major exchanges, like the **TSX** and **NYSE**, and you can buy them through a brokerage account.
- **Public non-traded REITs**: Public non-traded REITs don't trade on exchanges, but you can buy them through online portals known as "real estate crowdfunding platforms."
- **Private non-traded REITs**: Private REITs are only available to high-net-worth investors and

don't trade on exchanges.

These three categories of REITs have subcategories, too, the two most common being equity and mortgage REITs.

1. Mortgage REITs

Mortgage REITs (sometimes referred to as "mREITs") originate loans and mortgages and lend money to real estate developers. They make money primarily from the interest earned from loans.

2. Equity REITs

Equity REITs own and manage real estate properties that can produce income. These REITs make money by leasing space—such as apartments, office buildings, or commercial property—to tenants.

We're mostly discussing equity REITs here, though some of the names we suggest below also fall under the "hybrid" category.

Equity REITs can be broken down into 12 different sectors, each focusing on a separate facet of the real estate market. These sectors are:

- **Data centre REITs** specialize in data storage. They typically have temperature-regulated spaces with uninterruptible power supplies, which they lease out to technology companies for housing equipment.
- **Diversified REITs** manage numerous types of real estate, such as residential, commercial, and industrial space. Many focus on one market, such as a city or a district within the city, though some may even diversify by locale.
- **Health care REITs** operate health care-related properties, such as hospitals, medical offices, senior living communities, outpatient facilities, even science and research labs.
- **Hospitality REITs** own hotels and resorts, and make money by renting out rooms and conference space. Of all the REITs, hospitality REITs tend to be the most volatile, as they're connected to a fairly cyclical sector that requires a strong economy to perform well.
- **Industrial REITs** specialize in the storage and production of industrial goods and products. These spaces include food manufacturing facilities, temperature-controlled warehouses, office and flex space, even growing facilities for cannabis. Industrial REITs have taken off recently due to the surge in e-commerce companies, which need to rent facilities to store their products.
- **Infrastructure REITs** are unique in that they don't usually lease out physical space, such as buildings or land. Instead, they lease out infrastructure-related real estate, such as oil pipelines, fibre optic cables, cell towers, and other telecommunications assets.

- **Office REITs** rent out office space to tenants. These spaces could be as luxurious asskyscrapers or high-rises, or as basic as the tuition offices of a college in a small town. Manyoffice REITs focus on a specific city or region, while others lease space by job type.
- **Retail REITs** lease out retail spaces, like shopping centres, malls, and freestanding retail stores. Though some brick-and-mortar retailers have lost momentum since the outbreak of COVID-19, many others will always need retail space, such as grocery stores and pharmacies.
- **Residential REITs** manage living space for tenants, including apartments, condos, and even houses. These REITs are typically stable investments, as the population is rising and people are demanding more rentals.
- **Self-storage REITs** operate storage facilities and lease them out to individuals and businesses. Of the 12 REIT types, self-storage REITs tend to perform the best. This is not only because demand for self-storage is high, but also because self-storage warehouses are cheap to build and maintain, making it easy to generate high margins.
- **Speciality REITs** are basically the “other” category of REITs, and can include spaces as diverse as casinos, trampoline parks, farmland, and sky-diving arenas.
- **Timberland REITs** own and operate timber-producing land. This might seem oddly specific, but the timber industry is very land-intensive, using land not only to grow trees but also to mill and sell timber.

3. Hybrid REITs

Hybrid REITs are a combination of equity REITs and mREITs. They make money both by renting property to tenants and earning interest from their loans.

Top Canadian REITs

To invest in a REIT, you can buy shares through your brokerage account. As you’re looking for top REITs to invest in, here are some big companies that you might want to consider.

REIT	Description
Morguard North American (TSX:MRG.UN)	Residential REIT focused on leasing out residential spaces in both Canada and the United States.
SmartCentres (TSX:SRU.UN)	Retail REIT focused on both commercial and residential spaces.
Allied Properties (TSX:AP.UN)	Office and data REIT focused on developing and leasing out office space in all major Canadian cities.

Morguard North American Residential

Morguard North American Residential is one of the largest residential REITs in Canada. The REIT owns around 43 multi-suite residential properties across North America, with 16 in Ontario and Alberta and 27 in nine U.S. states.

Perhaps the most impressive part of this REIT is the whopping occupancy rate in its properties, which is far above the industry standard.

Morguard North American Residential also has one of the highest yields among residential REITs. That yield is likely to get higher, too, as this REIT has increased 10% over the last four years.

SmartCentres

SmartCentres is Canada's largest retail REIT by market cap. It has 283 properties, with 178 for rent and 105 for sale.

Its biggest client is **Walmart**, from whom the real estate trust earns around 25% of its revenue. It also has big plans to expand into mixed-use commercial and residential properties, which will only help increase the value of its current retailers.

Since 2003, this retail REIT has been paying regular dividends. What's more, this REIT didn't cut its dividend during either of the last two economic crises, the 2008 financial crisis or the 2020 pandemic.

Allied Properties

Allied Properties is an office and data REIT that owns 195 rental properties in numerous Canadian markets.

During the pandemic, when companies were no longer renting space, Allied Properties took advantage of low prices and made 14 acquisitions in Toronto.

It has continued to expand its reach, acquiring six high-quality offices in Toronto, Montreal, and Vancouver in March 2022. It now has a property portfolio valued around $8 billion.

Allied Properties pays a solid dividend right now. This could be a good time to buy Allied Properties, especially as more companies are starting to go back to the office.

How do REITs compare to real estate investing?

For those who have neither the time nor the capital needed to invest in real estate properties, REITs are certainly a strong alternative. In fact, in some cases, REITs can be much preferable to real estate investing.

Perhaps the strongest reason to invest in REITs over real estate is to have more liquidity. As a property owner, you can't effortlessly convert your property holdings into cash. The process is clunky and expensive, and it can take weeks or months before you finally close.

REITs, on the other hand, trade like stocks. To trade your shares for cash, just log into your brokerage account, sell your REIT, and deposit the money in your bank account. Depending on your broker, you might have to pay commission on your trade. Aside from that, the trade is effortless, and you'll have the money the same day.

As far as performance, it's difficult to compare a REIT's capital gains with the equity of real estate. Certainly, depending on where you own real estate, you can profit handsomely from selling property or even renting it out as a vacation home or apartment.

That said, the real estate market doesn't always favour investors. As we saw in the market crash of 2008, overinflated home prices can come back to haunt property owners.

While REITs don't appreciate on the same scale as real estate properties, they also don't crash quite as hard. This benefits risk-averse investors who want to benefit from real estate but also don't want to risk losing immense amounts of money.

Should you invest in REITs?

REITs were created to help average investors profit from the real estate market. They have built-in diversification, large dividend payouts, and, in some situations, they even outperform stocks over long periods of time.

They can be a great source of passive income, as well as an alternative to a more hands-on real estate approach.

For that reason, investors should certainly consider adding REITs to their portfolios, especially if they're looking for a dividend stock that pays well.

TICKERS GLOBAL

1. TSX:AP.UN (Allied Properties Real Estate Investment Trust)
2. TSX:MRG.UN (Morguard North American Residential Real Estate Investment Trust)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PP NOTIFY USER

1. jguest
2. metienne
3. tmfbwelch

Date
2025/06/27
Date Created
2022/06/29
Author
sporrello